Office of the Auditor General

REPORT OF THE

OFFICE OF THE AUDITOR GENERAL

263

AN IMMEDIATE NEED FOR ENRICHMENT IN THE OFFICE ON AGING

OCTOBER 1975

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature

MIKE CULLEN
CHAIRMAN

October 16, 1975

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

This audit report on the undermanaged California Office on Aging and its failure to plan expenditures effectively may reflect an apparent indifference of the Legislature and the Executive Branch to accountability of federally financed programs. Most such programs are rarely reviewed in standing policy committees. Legislative fiscal committees lack the staff necessary to fill that void.

Your Joint Legislative Audit Committee plans to test the premises by scheduling a number of audits of other federally financed programs administered by state employees. The objective of the Committee will be to determine the standards of measurement established by the Executive Branch in order to arrive at the cost-benefit ratio or productivity of each program.

The audit staff responsible for this review and report were Gerald A. Hawes, Audit Manager, Donald P. Musante and Virgil W. Woods.

Respectfully submitted,

Mike Cullen

MIKE CULLEN, Chairman
Joint Legislative Audit Committee

SUITE 750 • 925 L STREET • SACRAMENTO 95814 • (916) 445-0255

TABLE OF CONTENTS

SUMMARY

This is the third report issued in the past 24 months by the Auditor General's Office that has identified serious problems in the operations of the Office on Aging. Previous reports have stressed the need for timely and effective use of federal funds allocated to California to meet the needs of the elderly.

Total federal funds administered by the State Office on Aging has grown from $680,000 in fiscal year 1971-72 to over $20 million in fiscal year 1975-76.

Findings	Page
Since its inception, the Office on Aging has been subject to poor management. The state office has had numerous directors and reorganizations. The Office on Aging has not adequately assessed community needs, and projects that have been approved have not been provided satisfactory guidance or assistance.	6

We recommend that the Secretary of the Health and Welfare Agency take immediate steps to assure stability of leadership and direction of the agency's operations and to assure the adequacy of fiscal control and assistance to the projects funded by the agency. To assist in this action,

INTRODUCTION

In response to a legislative request, we have conducted a management audit of the operations of the California Office on Aging. This is the third report issued in the past 24 months by the Auditor General's Office in response to legislative requests for audits of this function. The first report released in September of 1973 identified serious staffing shortages in the operation of the Commission on Aging, now the Office on Aging, and identified problems in committing federal funds on a timely and effective basis. In December 1973, our second report noted that a significant number of employees of an already understaffed Commission on Aging were diverted to non-aging government functions. We again stressed the need for timely and effective use of federal funds allocated to California to meet the needs of the elderly.

The primary responsibility of the State Office on Aging is the supervision and administration of programs funded under Titles III and VII of the Older Americans Act of 1965, as amended. Title III of that act provides for the development, delivery and coordination of existing social services to the low income elderly, as well as the funding of new direct services to this client population. Title VII of the Older Americans Act is designed to provide meals to the low income elderly, for the most part, at central dining rooms. However, provisions also exist for home-delivered meals. Funding for Titles III and VII and for administration for fiscal years 1971-72 through 1975-76 are shown on page 5. Other federal funds

in lesser amounts have been made available to staff the State Office on Aging and to administer small grants for training and model projects.

To implement the provisions of Title III, the Office on Aging divided the entire state into 23 geographic planning and service areas. The state office has designated area agencies on aging in 15 planning and service areas.

The area aging agencies operate on the basis of a plan approved by the State Office on Aging, and are responsible for planning and coordinating existing social services provided to the elderly Californians within their areas, as well as providing the financial support for development of new services. They are provided funds by the Office on Aging for administration and implementation of their approved plans. Once an area agency is designated, the State Office on Aging has a continuing obligation to monitor the agency's operations and to provide consultation and technical assistance when requested.

In the remaining eight planning and service areas, the State Office on Aging funds community-sponsored projects which provide delivery of direct services to the elderly. These are generally the more rural areas of the state.

The Office on Aging has approved 54 nutrition projects to provide meals to California's over-60 population. Federal regulations require that the Office on Aging carry out ongoing monitoring and

administrative activities necessary to preclude adverse program developments in the nutrition projects such as mismanagement of funds, improper preparation of foods, or nonconsumed meals which are, in effect, wasted. Federal guidelines require that meals served through Title VII projects be made available on a priority basis to groups composed primarily of the low income and minority elderly.

Our fieldwork which was concluded on June 30, 1975 involved on-site reviews of nine nutrition projects and nine area aging agencies. We interviewed both federal and state administrative staff and examined the records of the central State Office on Aging and its three regional offices in Sacramento, San Francisco and Los Angeles.

BACKGROUND

Prior to January 1, 1974, the Older Americans Act in California was administered by the Commission on Aging, a commission within the Health and Welfare Agency, whose chief administrative officer had the title of Executive Director. Effective January 1, 1974, legislation transferred the administrative functions of the commission to a newly established Office on Aging, also within the Health and Welfare Agency. The chief administrative officer of the Office on Aging was classified as the Director of the Office on Aging. This appointment requires confirmation by the California Senate.

Total federal funds for Titles III and VII and for state administration has grown from $680,000 in 1971-72 fiscal year to $20,170,000 for the 1975-76 fiscal year. During this same period, staff positions at the state level devoted to implementation of the Older Americans Act in California has increased from 10 to 85.

Shown below are the amounts of federal funds that have been made available to the California Office on Aging to carry out the two primary provisions of the Older Americans Act. Amounts in the schedule are rounded to the nearest $10,000, and contain budgeted data for fiscal year 1975-76.

Federal Funds Available to the State
Office on Aging during Fiscal Years
1971-72 through 1975-76

	1971-72	1972-73	1973-74	1974-75	1975-76
Title III Planning and Services	$600,000	$2,440,000	$ 8,040,000	$ 6,840,000	$ 6,280,000
Title VII Nutrition	-	-	8,450,000	10,600,000	12,750,000
Administration	80,000	390,000	1,410,000	1,120,000	1,140,000
Total Federal Funds	$680,000	$2,830,000	$17,900,000	$18,560,000	$20,170,000

In addition to the above amounts in fiscal year 1975-76, California will receive $470,000 for training and model project grants.

The organizational structure in effect as of June 30, 1975 was based on a concept of decentralization which placed management control, decision making and program development in the three regional offices. The Sacramento central office was organized to give program and administrative support to the consultants asssigned to the regional offices. As of June 30, 1975 there were 27 professional positions allocated to the central office and 39 positions distributed throughout the three regional office structures.

The current director of the Office on Aging was appointed on June 27, 1975 and received Senate confirmation on September 3, 1975.

FINDINGS

SEVERE MANAGEMENT PROBLEMS OF THE STATE OFFICE ON AGING.

Since its inception in January 1974, the State Office on Aging has been subject to poor management. The State Office on Aging has had numerous directors and reorganizations. There has been little fiscal control over the projects they fund and inadequate assessment of community needs. Projects that have been approved have not been provided satisfactory guidance or assistance.

Numerous Directors and Reorganizations

During the past two fiscal years, July 1, 1973 through June 30, 1975, a total of five people have held the top position in the State Office on Aging. Of the four persons in the past 19 months who have held the position of Acting Director, only two have had their appointment submitted to the California Senate for confirmation. The first person whose name was submitted was not confirmed by the Senate because he failed to meet statutory requirements for the job. The current director received Senate confirmation on September 3, 1975. This frequent changeover of leaders has led to many problems within the Office on Aging.

Our review disclosed that acting directors were reluctant to make controversial decisions or to set policy for fear of losing support in their bid for confirmation.

The following examples related to personnel actions show that leadership and management control have not been effectively exercised in the Office on Aging.

- An employee received payment of $1,800 for 194 hours of compensating time off (CTO) carried over from a previous state department. To justify the payment, overtime request sheets were prepared which showed that the employee worked overtime on aging duties. These records even showed that the employee worked overtime on days that the employee was on vacation.

- An employee was appointed to the position of Executive Secretary to the Commission on Aging. Because the position had not been officially established at that time, the personnel office was ordered to develop overtime sheets to reimburse the employee for the services rendered. As additional compensation, the employee was given one week off with pay.

- An employee was fired by a former director. The personnel office came to the conclusion that there were no grounds for firing that employee. The director refused to allow the employee back into the office, and placed the employee on administrative leave until he found another job. The employee did not find another job until three months later. This action cost the Office on Aging $6,300.

- One outgoing director, in the same month after being replaced, took out-of-state plane trips to various parts of the country. In addition, he continued on the payroll until he terminated four months later. We found no evidence that during this period he performed any duties related to aging.

The Office on Aging has had five reorganizations in the 18-month period, January 1, 1974 through June 30, 1975. A common complaint made by directors of aging projects is that Office on Aging personnel have frequently changed their roles. Many times, the advice received from consultants of the Office on Aging has been inconsistent with past actions or contradictory to other advice received. Our review disclosed that actions taken by project managers on the advice and approval of the consulting staff were often reversed by state office directors. Also, the advice received from consultants has been oral, rather than written.

Personnel of the Office on Aging have frequently complained that communications between the central and regional offices are so bad that their advice has been countermanded by the central office or that they have not received support in their actions.

Lack of an Effective Management Information System

Our review disclosed the lack of an effective management information system. Such a system is necessary and vital for responsible decision making.

During the course of our fieldwork, we requested certain data from the staff at the headquarters and regional offices. Among such requests were the following:

- The number, types and disposition of all applicants who submitted proposals for funding since the inception of the Office on Aging
- Operating budgets, expenditures, summaries of nutrition projects and area agencies on aging
- Written job descriptions of staff members in the regional offices
- Written summaries of project visits (needs, problems and dispositions) and workload statistics of regional office consultants.

Repeated attempts to secure these important items of information were only partially successful; we sometimes waited several days or weeks before we received it, and in some cases we never received the information.

The Office on Aging had statistics that showed the cost per meal served at the nutrition projects. However, our review disclosed that the various projects reported costs differently; therefore, for monitoring and planning purposes the information is of little or no value.

The central office staff of the Office on Aging repeatedly stated that, since decentralization, all master files were shipped to the regional offices. On the other hand, staff of one regional office explained that their files were not complete because some files were dumped into boxes and shipped to them and they were still attempting to sort them out. They further stated that the central office should have a complete file of the information that we needed because the regional offices send them copies of everything.

Many aging projects reported that they had submitted important documents (e.g., contracts, budgets, claims and requests for funds) to the regional office and these documents were somehow lost. Projects have been told that either the regional office never received them or that they were submitted to the central office, but the central office has no record of receiving them. A number of projects have been instructed to never send any important documents by mail but to hand carry them to the regional office.

Our review of the project files in one regional office revealed that their files are incomplete and some are in complete disarray. One project file in particular was so disorganized that it was impossible to get any kind of orderly picture of what had transpired. It is inconceivable that any consultant, by a review of records, could possibly know what was going on in that project. This project happens to be one that is said to be having financial troubles which may cause it to close some of its meal sites. It is incomprehensible how meaningful decisions can be made regarding

federal funding and reporting when the necessary data is not readily available, is incomplete, or is nonexistent. Consultants should have accurate and reliable data at their disposal in order to adequately assess project operations and needs.

The state office has not actively solicited project applications from communities in California. In at least one instance, the state office refused to provide federal guidelines to an applicant on the grounds that there were no federal funds available. The second and third findings of this report detail the excess of federal funds available. However, even if there were no federal funds available, it is an important management function to encourage communities to apply for funds for the following two reasons. First, only through the process of multiple applications can the state have the information necessary to select those which are most deserving of approval; and secondly, this process provides important management information concerning the total level of community needs which is an essential component of the planning function.

Lack of Ongoing Fiscal Control and Assistance

Most of the consultants of the State Office on Aging who monitor and provide technical assistance to the nutrition projects, area agencies on aging and the other Title III projects do not have adequate background in the analysis of financial data to properly perform their functions. The state office has only four financial examiners. These four must perform close-out audits on each project throughout the state and provide financial assistance to the projects, both in the preparation of budgets and in the proper management of funds received.

Because the financial examiners are spread so thin, they rarely have a chance to review a project except at the year-end close-out audit. Many projects have requested financial assistance or clarification on a financial issue and waited months for an answer. Other projects have been able to request funds without providing documentation that these funds are being expended. For example, as of June 30, 1975, one area agency had a cash balance of $300,000 in its county bank account. This project requested and received from the state agency each quarter $115,000, even though their rate of expenditure was only $10,000 a month.

Budgets have been a large problem with the State Office on Aging. Most of the projects have prepared five to ten budgets for each year of their existence because the state office has not provided technical assistance. One nutrition project prepared 18 budgets for its second year of operation. Because the approval of budgets takes so long, many projects must wait three or four months before they receive their first payment for their grant. In addition, because the state is sometimes late in paying monthly claims, many projects request more funds than they need for a given period.

Year-End Reviews Conducted by the State

The State Office on Aging requires that each project that receives a grant from their office obtain an independent audit of its financial statements. The end result of such an audit is an expression

of an opinion on the fairness with which financial statements present the financial position and the results of operation of the given project.

This type of audit does not provide the Office on Aging with sufficient data to decide if the projects are operating effectively. Therefore, they must perform a close-out audit. For example, the Office on Aging staff performed a close-out audit of one project which disclosed $10,000 of improper expenditures in terms of federal regulations even though the project had an independent audit performed by a certified public accountant.

An independent auditing firm could perform a compliance or operational audit which would review the effectiveness of a given project in fulfilling its contract, if required to do so by the terms of the engagement.

There were not enough financial examiners in fiscal year 1974-75 to effectively perform all the close-out audits of the nutrition projects, area agencies on aging and other Title III projects. Central office staff were required to assist the financial examiners with the close-outs. Many of these close-out audits were performed hastily and were not thorough.

Many nutrition projects had excess funds that had not been expended during the first budget year of the projects. These carryover funds of the nutrition projects remained unused until the close-out audit was performed. In most instances, because of the limited number of financial examiners, the close-out audits were not performed for months after the end of the project's first budget year. For example, one

nutrition project, whose budget year ended September 30, 1974, did not use $54,000 in its first year of operation. The project continually notified the State Office on Aging that these funds existed. However, it was not until eight months later, on June 3, 1975, that instructions were received to use of the money to offset a current monthly request for funds.

CONCLUSIONS

- The rapid growth of federal funds available to provide services to the elderly, the rapid increase in the staff of the office assigned to administer these funds, the frequent changes in leadership and the frequent reorganizations of the agency have combined to create an agency that is currently unable to achieve its potential of effectively meeting the needs of California's elderly.

- The current audits performed by independent auditing firms do not measure the effectiveness of the aging projects. However, independent auditing firms could perform compliance or operational audits, which would go beyond the standard financial audit. For example, in regard to expenditures of a nutrition project, the compliance audit would test the expenditures to make sure that they were in accordance with federal and state regulations and that the meals were served to eligible recipients.

- Projects have been able to request and receive funds greater than the amount necessary for current operations.

RECOMMENDATIONS

We recommend that the Secretary of the Health and Welfare Agency, in conjunction with the Director of the State Office on Aging, take immediate steps to assure stability of leadership and direction of the agency's operations and to assure the adequacy of fiscal control and assistance to the projects funded by the agency. To assist in this action, we recommend that a task force composed of management experts, fiscal experts, statistical specialists and personnel specialists familiar with programs for the aging be assembled from the resources available to the Health and Welfare Agency and be charged with at least the following three action steps:

- Creation and implementation of an effective management information system

- Determination of whether the audit function should be an expanded state function which would also be used as an adjunct to the management information system or whether the state should rely on compliance audits performed by independent auditors

- Determination of the proper mix of specialties between program consultants, monitors, accountants, statistical personnel, etc., necessary to enable the office to function independently and effectively after the task force leaves.

We also recommend that the Office on Aging require aging projects to return any funds previously received which are in excess of their needs for current programs. In the future, funds should only be sent to the projects after they have demonstrated a need for such funds.

INADEQUATE FISCAL CONTROL OVER PROJECTS FUNDED UNDER TITLE III.

The practice of the Office on Aging and its predecessor, the Commission on Aging, has often been to approve Title III projects (in effect, award contracts) late in the year in which the funds have been made available by the United States Department of Health, Education and Welfare. Title III monies are made available by the federal government to fund area agencies on aging and projects which provide direct services to the elderly. These services and projects can be either of a continuous nature, or can be one-time projects such as capital investments in senior citizen centers or transportation systems. By encumbering these funds before the end of the year, the state has so far avoided having to return the funds to the federal government for redistribution to other states. However, this process has had the effect of pushing the expenditures of those funds, which would supply services to the elderly, forward into future fiscal years. In addition, as of June 30, 1975 the area agencies on aging have only expended a small portion of the Title III funds granted to them in fiscal years 1973-74 and 1974-75. As a consequence, an estimated surplus of $8,550,000 has accumulated statewide as of June 30, 1975.

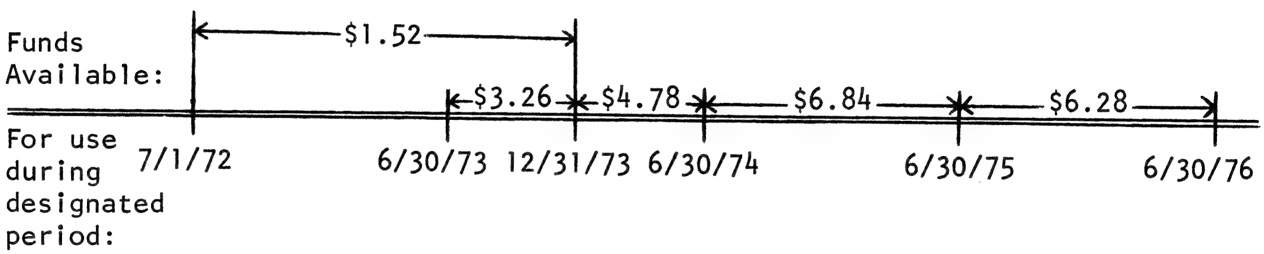
Availability of Federal Funds for Title III Projects

Federal funds under Title III of the Older Americans Act are made available for use during specific periods on projects approved by the California Office on Aging. For example, the federal government made

available to the Commission on Aging $3,260,000 in July 1973 and $4,780,000 in January 1974. These funds, totaling $8,040,000, were intended to be used on projects during fiscal year 1973-74.

The following schedule shows the amounts of Title III funds available to fund projects during the periods shown.

(In Millions)



Delay in Services
to the Elderly

The State Office on Aging has in most cases over the past few years funded projects just before the federal deadline for such funding. This practice of last-minute funding has prevented the forfeiture of the money for redistribution to other states, but has resulted in the expenditure of funds beyond the fiscal year in which they were made available by the federal government. In addition, many of the projects which were funded did not spend at the anticipated rate and at the end of the funding period had accumulated surpluses.

In December 1973, the state agency on aging designated area agencies on aging for 6 of the 23 planning and service areas throughout

the state. These agencies received $2,890,000, or 88 percent, of the $3,260,000 of 1973-74 Title III funds made available by the federal government on June 30, 1973. The funds were to be used to plan and to provide services to the elderly in those areas.

The State Office on Aging granted these six area agencies an additional $2,860,000, or 60 percent, of the $4,780,000 of funds that were made available on January 1, 1974, even though the area agencies had not implemented their area plans to provide services at their previously funded level.

In May 1974, the Office on Aging designated another $1,080,000 of the $4,780,000 for five additional area agencies. These five new area agencies were created without an evaluation of the effectiveness of how well the area agency concept was working in the previously designated agencies. This left only $840,000 of the $4,780,000 grant to fund direct service projects in areas not served by an area agency on aging.

The original six area agencies funded in December 1973 only expended $800,000 of the $5,750,000 for planning and social services during their contract period ending December 31, 1974. The $4,950,000 not expended by the area agencies in their first budget year was used to fund their second budget year of operation. This action released $4,950,000 of fiscal year 1974-75 funds that already had been obligated to fund these projects' second budget year. By June 30, 1975 the state reobligated all of the $4,950,000 to prevent any reversion of the funds to the federal government.

The state agency's concern with obligating Title III funds and not with expending the funds in the year they are made available has resulted in a one-time surplus of $8,550,000. It is estimated that the seven area agencies that are funded with $4,950,000 of 1973-74 Title III funds will still have $2,300,000 to expend in fiscal year 1975-76. In addition, the projects funded with $6,840,000 of 1974-75 Title III funds will still have $6,250,000 available to expend in 1975-76.

The following schedule shows the amount of Title III funds from federal allotments prior to 1975-76 that still remain to be expended in fiscal year 1975-76.

	Contract Amount	Funds Estimated to be Expended by Fiscal Year 1974-75	1975-76
7 area agencies funded from 1973-74 funds	$4,950,000	$2,650,000	$2,300,000
Projects funded from 1974-75 funds	6,840,000	590,000	6,250,000
Total funds	$11,790,000	$3,240,000	$8,550,000

In addition to the $8,550,000 in one-time surplus, the state has its regular allotment of $6,280,000 to expend in fiscal year 1975-76. The State Office on Aging has indicated that they have developed plans to use all the surplus funds available during 1975-76. Since there is a large backlog of 1973-74 and 1974-75 funds, it is imperative that the State Office on Aging monitor the immediate expenditure of these funds by the area agencies on aging to prevent any reversion of the funds to the

federal government for redistribution to other states and to avoid any frivolous or wasteful expenditures.

CONCLUSION

The fiscal practices of the Office on Aging have allowed the projects funded under Title III to expend funds beyond the fiscal year in which the funds are made available to California by the federal government. In addition, the area agencies on aging have not been operating effectively and have not used most of the funds granted to them. As a result, for fiscal year 1975-76 there is $8,550,000 of a one-time surplus available to fund the operations of not only area agencies on aging but also direct service projects.

RECOMMENDATION

We recommend that the State Office on Aging closely monitor the expenditure of fiscal year 1973-74 and 1974-75 Title III funds by the area agencies on aging to ensure proper and timely expenditure of the funds. In the future, funds should be expended in the year in which the funds are made available to California by the federal government. The Office on Aging should exercise adequate fiscal control to ensure that the funds are expended expeditiously and judiciously.

INADEQUATE FISCAL AND PROGRAM CONTROLS OVER NUTRITION PROJECTS FUNDED UNDER TITLE VII.

The State Office on Aging has established the same pattern of granting federal nutrition funds received under Title VII as they established with Title III funds. That is, the state office has approved nutrition projects late in the year in which the funds have been made available by the federal government. This practice delays spending those funds which provide meals to the elderly until later fiscal years. As a consequence, an estimated surplus of $5,830,000 has accumulated as of June 30, 1975. In addition, the improper funding practices of the Office on Aging have caused unwarranted hardships on the nutrition projects.

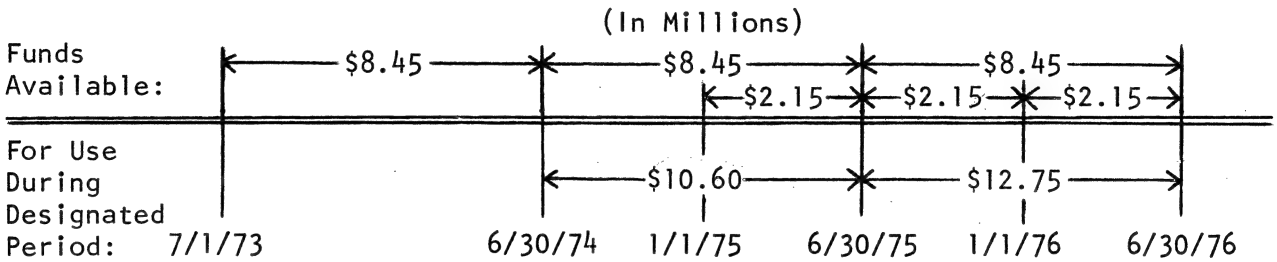
Availability of Federal Funds for Title VII Nutrition Projects

In each fiscal year, 1973-74 and 1974-75, the State of California has received $8,450,000 of federal monies to fund nutrition projects that serve meals to the elderly.

During May 1975, the U. S. Department of Health, Education and Welfare released $2,150,000 in addition to the $8,450,000 originally made available in 1974-75 under Title VII of the Older Americans Act. This brought the total funds available for funding nutrition projects for fiscal year 1974-75 to $10,600,000. The purpose of the additional $2,150,000 was to increase by June 30, 1975 the level of funding in California to the 1975-76 level of $12,750,000. The federal guidelines

stated that the $2,150,000 should have been used to fund nutrition projects for the six-month period ending June 30, 1975.

The following schedule shows the amounts of Title VII funds available for nutrition projects during the periods shown. The schedule does not take into account any amounts appropriated by Congress but impounded at the federal level and not released to California.



Delay in Meals
<u>Served to the Elderly</u>

The State Office on Aging has funded nutrition projects just before the federal deadline for funding projects. As a result, only one nutrition project funded from fiscal year 1974-75 funds expended all its funds in fiscal year 1974-75. It is estimated that the other nutrition projects funded from 1974-75 funds will carry over and expend $3,680,000 in fiscal year 1975-76. Also, the State Office on Aging did not use any of the $2,150,000 of new funds that were made available in fiscal year 1974-75 to fund nutrition projects.

The following schedule compares the funds that were available for funding nutrition projects in fiscal year 1974-75 with amounts estimated to be expended by the projects.

	Funds Available in Fiscal Year 1974-75	Funds Estimated to be Expended by Fiscal Year 1974-75	Funds Estimated to be Expended by Fiscal Year 1975-76
Original Allotment	$ 8,450,000	$4,770,000	$3,680,000
Second Allotment	2,150,000	0	2,150,000
Total Funds	$10,600,000	$4,770,000	$5,830,000

Title VII project commitments are, by their nature, continuing and therefore a one-time surplus must be spread over a period of time. For example, the state office could use the $5,830,000 to fund nutrition projects over a three-year period. These projects could be funded with the understanding that after three years, unless additional federal funds became available, funding would be discontinued.

Improper Method of Allocating Nutrition Funds

At the end of the nutrition project's first budget year, the State Office on Aging did not evaluate the projects to determine their effectiveness in serving meals to the elderly. The state office, in the fall of 1974, made the decision to fund the second budget year of the nutrition projects at the same level as the first budget year. This decision did not take into consideration the quality of the services provided, the costs per meal, the type of recipients served, the funds not necessary in the first budget year, or the expansion plans of the projects.

Many of the nutrition projects have suffered from the funding process used by the State Office on Aging. Meal costs increased during

the second budget year, requiring some projects to eliminate necessary staff positions or necessary equipment from their budget in order to serve the same number of meals as the previous year. Other projects were forced to reduce the number of meals served. The State Office on Aging received $2.15 million from the federal government for serving meals in the second half of fiscal year 1974-75. These funds could have been used to offset the inflation that nutrition projects faced. However, none of these funds were provided to any of the nutrition projects.

Our review disclosed that some of the nutrition projects funded were not directed toward serving the low income or minority elderly. However, all of the projects we visited did serve some low income elderly, and all of the projects provided a social setting for those people who were previously leading what appeared to be an isolated existence.

The federal regulations state that the nutrition projects should serve meals primarily to the low income and minority elderly population of the state.

Social Services Component of Nutrition Projects Could be Funded by Area Agencies on Aging

The nutrition projects expend approximately 19 percent of their grant for ancillary social services, in conformance with guidelines from the State Office on Aging. Social services include such things as

transportation of seniors to their meal sites, information and referral and educational activities. If the social service component of the nutrition projects had been funded by the area agencies on aging with Title III funds, which were available, $1,600,000 would have been available in 1974-75 for additional meals. While this refers to a prior period, time still remains for the social service component to be funded by Title III funds during 1975-76, therefore releasing all the nutrition funds for meals and project administration.

Nutrition Funds Available to
Supply Meals in 1975-76

During fiscal year 1974-75, the nutrition projects served 17,000 meals daily with approximately $6,850,000 of federal funds. In fiscal year 1975-76, $14,690,000 is available for meals and administration of the nutrition projects. This is an increase of $7,840,000 over the actual amount of federal funds expended for nutrition projects in 1974-75.

The following schedule shows the calculation of the increase in dollars available for nutrition projects in fiscal year 1975-76. It assumes that all nutrition projects will be funded on a fiscal year basis and that all monies available will be expended for meals and administration of the projects and not for social services.

New Capacity		
1975-76 level of funding	$12,750,000	
Plus one-time surplus of $5,830,000 (to be used over a three-year period)	1,940,000	
Total available		$14,690,000
Old Capacity		
1974-75 grant serving 17,000 meals daily	8,450,000	
Less social services component which could have been funded by Title III	- 1,600,000	
		6,850,000
Increase in funds available for nutrition projects in 1975-76		$ 7,840,000

CONCLUSION

The State Office on Aging has not effectively funded nutrition projects in California. Funding of projects has been delayed, resulting in a one-time surplus of funds available for nutrition projects of $5,830,000. Also, the state office's guidelines have resulted in nutrition projects using nearly one-fifth of their nutrition funds for ancillary social services, rather than encouraging area agencies on aging to fund such services with available Title III funds and thereby freeing all Title VII funds for providing meals and directly related project administration. In addition, nutrition

projects have been funded without an adequate review of their performance. Some nutrition projects are not serving meals primarily to the low income and minority elderly population, as provided in federal regulations.

RECOMMENDATIONS

We recommend that the State Office on Aging after correcting its administrative deficiencies which should be an immediate priority:

- Ensure that all funds are expended in the year in which they are made available to California by the federal government

- Revise its guidelines to encourage area agencies on aging to use available Title III funds for social services ancillary to nutrition projects

- Review the effectiveness of the performance of nutrition projects and assure that such projects concentrate on serving meals to groups composed primarily of the low income and minority population.

OTHER PERTINENT INFORMATION

Relationship of Area Agencies on Aging with Nutrition Projects

Most of the nutrition projects we visited during our review expressed deep concerns over attempts by the State Office on Aging to put nutrition projects under the jurisdiction of the area agencies on aging. We observed that while most of the nutrition projects were operating effectively and providing good services to the elderly, the area agencies on aging were not operating effectively.

Federal regulations state that in order to place a nutrition project under jurisdiction of an area agency on aging, a mutual agreement between the two must be reached. As recently as September 25, 1975, officials in the regional office of the federal Office on Aging in the Department of Health, Education and Welfare stated that this regulation is still in effect. In our judgment, no nutrition project will agree to this until an area agency on aging is operating effectively.

Innovative Area Agency Concepts

In an effort to reduce administrative overhead, the State of New York has designated the directors of existing county agencies as area agencies and provided these area agencies with minimal administrative support. For example, if California were to experiment with the New York plan, an area agency could be designated consisting of:

- The county manager or his representative

- The county public health director

- The county welfare or social services director

- A small support staff consisting of a secretary and an administrative assistant.

This type of area agency would still be responsible to a citizens' advisory council. Such an arrangement has not only the potential of reducing administrative overhead costs, but also the potential of directly involving those county agencies that already have responsibilities to serve the elderly population, with the additional responsibility of allocating Title III funds. In our opinion, California would be well advised to experiment with this planning and service approach at least on a pilot project basis.

STATE OF CALIFORNIA — HEALTH AND WELFARE AGENCY EDMUND G. BROWN JR., *Governor*

OFFICE ON AGING

455 Capitol Mall, Room 500
Sacramento, California 95814

October 3, 1975

Mr. Don Musante
Office of the Auditor General
925 L Street, Suite 750
Sacramento, California

Dear Mr. Musante:

We have reviewed the subject report, and find that, with those exceptions noted below, the report is accurate and precise.

The staff of the Office of the Auditor General who were principals on the study, Messrs. Hawes, Musante and Woods, are to be commended for their professional and thorough work on the audit.

With regard to the issue of project auditing (page 14), it should be noted that approximately one year ago, the office prepared and presented to the Health and Welfare Agency a position paper outlining this problem and requesting permission to expand its in-house capability in management auditing. The paper discussed both need for and cost effectiveness of such a unit. That effort resulted in a mandate to convert existing positions to fiscal management functions, but limited conversion to one-half the staffing level proposed. Unfortunately, pressures within the organization forced both delays and further reduction, resulting in the situation noted by the audit.

With regard to the finding <u>Inadequate Fiscal Control Over Projects Funded Under Title III</u> (page 17), it should be noted that:

1. Federal policy in regard to funding (AoA PI 75-4) recognizes some of the unique problems related to operationalizing the AAA concept in that it permits a period of fiscal accountability of up to 19 months. Therefore under Federal policy, FY 75 funds may be awarded to an AAA by the State agency the last day of FY 75 (i.e. 6/30/75) and these funds may be earned through activities under an area plan up until January 29, 1977 (this means a period of a total of 26 months from allocation to the State to full earning by the AAA).

2. The State agency typically does not have authority to obligate all Title III funds for a given fiscal year until at least midway into the fiscal year, e.g. FY 75 funds were initially available only on a Continuing Resolution under which only 1/12 of the total year's allocation could be obligated by the State in any month. Full obligation of FY 75 funds was not possible unitl approximately February, 1975.

3. Federal regulations require that at least 80 percent of Title III area planning and social service funds be awarded to AAAs.

By July 1, 1975, a plan for accelerated Title VII funding was developed along the lines suggested in the report (page 24), and initial allocation of monies begun. However acceleration was based on a figure nearer $2 million than the $5.4 million noted in the report. Given the release of AoA PI 76-4, we anticipate enlarging the scope of the acceleration.

With regard to the issue of offsetting inflation in Title VII projects (page 25), it should be noted that steps were taken during the first days of July to accomplish this, although the source of monies was the "carryover" monies referred to on page 24.

It should also be noted that not until late September (AoA PI 76-4, 9/24/75) were the states assured by AoA of full funding for FY 75/76. Earlier comments and directives from AoA alluded to a spending level in excess of available monies, and there was concern that the difference in amounts were to be derived by each state from carryover of the previous year.

References to delays in obligating Title VII funds (page 27) are subject to the same issues of "continuing resolution" in coming years, should "carryover" be completely exhausted.

In reviewing the conclusions and recommendations, we concur, with the following exceptions:

1. Page 15 - We believe that the existing staff of the Office on Aging, given new, strong and permanent leadership, will be fully capable of performing the duties of the recommended task force.

2. Page 16 - We do not feel that any useful purpose is to be served by the technical procedure of recalling funds. Rather we will not honor any request for payment from any project with excess reserves until those reserves are exhausted. Further, we are initiating immediate action to determine exact excesses in each project.

3. Page 29 - The following excerpt from a letter to one of our Title VII projects on September 17, 1975, reflects our current policy on integration of Area Agencies on Aging and Title VII projects:

> "One of our State Objectives for the coming year is maximum coordination between Titles III and VII, where practical and feasible, to minimize duplication and gaps in providing both the nutrition and social services, and to assure the greatest degree of economy and efficiency in programs for the elderly.
>
> Since all Area Agencies are at different levels of development, it would be neither practical nor feasible to consolidate all areas at the same time. However, particularly in areas with several Title VII projects, there are clear advantages to earlier integration."

4. Page 30 - While we agree that there is merit to the suggestion regarding innovative area agency concepts, we do not feel justified in pursuing experimentation of this sort until we have addressed and resolved the more immediate and pressing issues identified in the report.

Except as noted above, we concur with the findings reflected in the report. In most areas, we have independently identified problem areas and have already begun corrective action.

Most sincerely,

J. L. Balala Jr.

for Janet J. Levy
Director

cc: Members of the Legislature
Office of the Governor
California State Department Heads
Capitol Press Corps
Directors of Aging Projects
Legislative Analyst
Director of Finance